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1927

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Recommended Citation
Haskins & Sells Bulletin, Vol. 10, no. 01 (1927 January), p. 2-4

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condition, proposals to issue additional shares, or other securities, to sell or mortgage property, or to enter into other contracts vitally affecting the life of the corporation, might be just reasons for enfranchising the investing shareholder. In some instances the enfranchisement would cover specific matters, and cease until occasion again required similar action. In other cases, the duration would depend upon conditions.

Fundamental to the solution of the voting problem is the matter of financial information. An investing shareholder, if he is to exercise intelligent judgment, must have frequent and comprehensive financial data which are known to be accurate and dependable. The need for information is the same whether in following his judgment he is moved to attack the powers that be, or to disappear quietly from the list of shareholders. He may have been beguiled into buying non-voting stock. There is no law which compels him to retain it. If he is fortunate enough to own stock which enables him to make his voting power effective in financial matters, he must know the financial facts surrounding matters on which he undertakes to act or to lead others to action.

Shortages and How to Cover Them

ARGUMENT has been advanced on various occasions against the publication of data relating to the perpetration of fraud. This argument is based on the theory that the publication of such information might suggest wrong-doing to someone who otherwise would not have thought of that possibility.

Another argument has been that the knowledge of how irregularities are perpetrated and covered is a part of a certified public accountant's stock-in-trade and therefore it should not be made public.

These arguments and any others like them fall precipitately in the face of a demand that no effort be spared to check the widespread crime-wave that threatens to undermine the business structure of the country. It is not enough that accountants understand how fraud is committed and concealed, and how it may be detected. It will not suffice for accountants to exercise their keenest skill and constant vigilance in bringing to light the evil machinations of dishonest individuals in business. The coöperation of every honest individual, who has it in his power to help, is needed. To make this coöperation effective, wider distribution of knowledge is needed as to the nefarious schemes employed in stealing and covering the thefts.

The instalment business, whether economically a blessing or a curse, offers a fertile field for the practices of the business underworld. This is due to the fact that the volume of business in a given case generally is large, the method of payment requires an infinitude of entries, loose-leaf records are the only practicable means of handling the accounts, and the detection of any irregularities involves an amount of detail work distasteful to contemplate.

Systems of internal control and check whereby a proper division of labor is attained offer an effective means of preventing and detecting irregularities in the instalment field as well as in other fields. But to make a system effective someone dependable and not an operative under the system must ascertain at frequent intervals that the system is being carried out as planned, and that each individual is performing only the task to which he is assigned. Further, it is of paramount importance that the individual operating the controls should have no opportunity of handling any funds.

A case in which large embezzlements and ramified collusions were involved was discovered recently. This case serves admirably to illustrate the necessity for general coöperation among those who constitute the honest human element of business, the need for a carefully planned accounting system, and beyond everything, the importance of proper supervision over the operation of the system to the end of obtaining assurance that it is being operated effectively in the interest of fraud prevention as well as for the purpose of having records which will facilitate the collection of accounts.

The case in question arose in an instalment business where goods were sold on time, a note and a chattel mortgage were taken from the customer, and the notes frequently were discounted at banks. The office force consisted of five men and one stenographer. The positions of the five men were respectively office manager, general bookkeeper, ledger clerk, cashier, and collector. There was an up-to-date system of accounting, installed by certified public accountants, but the office force was all in one room and the employes functioned indiscriminately, with little or no effective supervision, on the various operations of the system.

The embezzlement amounted to approximately $100,000; extended over a period of two and a half years; and was systematically planned and carried out through the collusion of five men and one stenographer. A private set of books was kept by the embezzlers. Parts of these records were recovered from them. The remainder they claimed to have destroyed after they were discovered. As will be apparent probably from the description which follows, the irregularity could not have been effectively concealed had one person in the group been honest.

The money taken was in the form of currency, checks when received from customers being regularly endorsed and deposited, thus leaving no trace of the actual thefts. The items intercepted represented largely accounts paid up in full before due, although latterly petty instalments were taken.

The concealment was effected by crediting the individual cards, in order to prevent suspicion or investigation by the credit man, but without entering the amounts in the collection register or in the cash book. This obviously resulted in a balance in the controlling account which was in excess of the aggregate of balances taken from the individual cards but this difference was made up at the end of the year when an audit was expected by the preparation and introduction of fictitious cards and forged notes. The cards were given the appearance of reality by using names of former customers, by giving the card a current contract number, by giving the opening charge a date late in the year, and by posting fictitious instalment credits as of the month of December so as to make the account appear current as of December 31. Fictitious notes bearing current dates and numbers and proper amounts were completed by forged signatures of the purported makers and of the notary by whom customers notes usually were attested as to the transaction.

In other instances the excess of control over details was made up in part by using genuine cards representing accounts actually paid up in December, the genuine notes, however, being retained instead of being returned to the customers. The posting of credits to these accounts was withheld until after the December balance had been taken, the stenographer exercising care that no further notices of instalments due were sent to such customers.

During the last year coverage was effected from month to month by the manipulation of adding machine tapes through what is known as "plugging." This operation consists in throwing back the carriage, depressing the keys to cover the amount required, registering the amount in the machine without printing the item, restoring the carriage to its proper place and printing in the total. Thus, a summary of totals taken from the various tapes would agree with the balance shown by the controlling account.

From time to time during the latter part of the period ending in discovery, current stealings were covered by "kiting," which is to say, collections of one day were used to account for entries and deposits of the previous day. During the same period concealment of interceptions was attempted by entering certain collections and underfooting the cash receipts book in corresponding amounts.

Discovery resulted when accountants made a surprise visit and the culprits had no time to use their customary methods of concealment. The establishment of the actual shortage, however, was a long and laborious task because of the vast amount of detail involved, of cards which were missing, and of fictitious cards.

This case stands out as the worst in the knowledge of those who have had large experience in dealing with cases of irregularity. The scheme was diabolically conceived, cleverly executed, and the shortage was fiendishly concealed. Never so far as is known have so many employes been involved in collusion. One honest person in the group would have frustrated the operation of the illegitimate plan. One might say, here was a perfectly good accounting system which went wrong because it was not operated as planned. The responsibility for the failure was higher up. It is submitted that the coöperation of "higher-ups" is necessary to stop the modern tendency to embezzlement and dishonesty. Information concerning shortages and how they are covered should be helpful to corporate officials and others who wish to meet their responsibilities and coöperate with accountants in this movement.

The Natural Business Year

THE proportion of business organizations which end their fiscal year on December 31, as indicated by the results of a recent investigation, is seventy-two per cent.

The pressure which accounting firms annually undergo because of this congestion at the end of the calendar year has caused professional accountants to urge a more logical time to close the books—at the end of the natural business year. A fiscal year coinciding with the natural business year would end during that dull period which follows the heaviest selling season, ordinarily evidenced by low inventories, low receivables, and a minimum of borrowings. It is at this time that the operations of the past year may be most profitably reviewed and policies formulated for the coming season. This situation is not confined to those industries which are directly affected by the growing of crops. Any company having seasonal fluctuations, that is, which has an annual recurring of brisk and dull periods at about the same time each year, should consider the question of the natural business year. There are many such industries not directly concerned with the maturing of crops.

Frequently those who use the calendar year as their business year continue to do so under the impression that the Federal income tax law requires that a return be filed for the calendar year. In view of the fact that the government permits the filing of returns for a fiscal year ending on the last day of any month, a considerable part of the efforts of accountants advocating the adoption of the natural business year has necessarily been devoted to correcting this misconception of the internal revenue law. In addition, accountants have pointed out the advantages accruing to the business concern